



U.S. Department of Energy  
Office of Inspector General  
Office of Audits and Inspections

# Audit Report

Management Letter on the Uranium  
Enrichment Decontamination and  
Decommissioning Fund's Fiscal Year  
2011 Financial Statement Audit



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

September 7, 2012

Mr. Gregory Friedman  
Inspector General  
U.S. Department of Energy  
1000 Independence Avenue, S.W. Room 5D-039  
Washington, DC 20585

Dear Mr. Friedman:

We have audited the financial statements of the Department of Energy's (the Department) Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) as of and for the year ended September 30, 2011, and have issued our report thereon dated September 7, 2012. In planning and performing our audit of the consolidated financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below and as more fully described in our *Independent Auditors' Report*, which is included with the D&D Fund's financial statements, we identified certain deficiencies in internal control related to environmental liabilities that we consider to be a material weakness and certain deficiencies in internal control related to information technology and the Statement of Budgetary Resources that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the D&D Fund's internal control to be a material weakness:

- ***Environmental Liabilities (Finding 10-EM-01)*** – We identified deficiencies in the D&D Fund's management review procedures to prevent and detect errors and omissions in environmental liabilities. These deficiencies resulted in material misstatements of the environmental liabilities that were corrected in the FY 2011 financial statements. The D&D Fund should establish additional control procedures related to recording of environmental liabilities to ensure that recorded amounts are accurate, complete and supported by appropriate documentation.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the D&D Fund's internal control to be significant deficiencies:

- ***Unclassified network and information systems security (Finding numbers reported separately in DOE consolidated financial statement management letter – information technology dated December 20, 2011)*** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.
- ***Statement of Budgetary Resources (Finding 11-DD-F-01)*** – We identified deficiencies in the D&D Fund's internal control over preparation of the Statement of Budgetary Resources (SBR). The Change in Obligated Balance section of the FY 2010 SBR did not include the recovery of prior year obligations and the amount was corrected in the FY 2011 financial statements. The identified deficiencies increase the risk that the D&D Fund's financial statements could be misstated and not be prevented or detected by the D&D Fund's internal controls. The D&D Fund should implement review procedures to ensure that the D&D Fund's SBR amounts agree with the SF-133 and are properly stated in the D&D Fund financial statements.

Although not considered to be significant deficiencies or material weaknesses, we also noted certain matters involving internal controls that are presented in Exhibit A, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the D&D Fund's internal control or result in other operating efficiencies.

Management's reaction to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We appreciate the courteous and professional assistance that the D&D Fund personnel extended to us during our audit. We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, the Office of Inspector General, and the Office of Environmental Management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

**Management Letter**  
**Index to Exhibit A and Listing of Other Exhibits**

*Comments Related to Internal Controls and Other Operational Matters (with parenthetical references to findings and recommendations issued during the engagement)*

Investments

**Finding 1:** Market Value of Investments (**11-G-01**)

*Exhibit A*

A.1

**Comments**

**Investments**

**Finding 1:** Market Value of Investments (11-G-01)

Our detailed testwork over D&D Fund investment balances disclosed that the D&D Fund understated the market value for investments by approximately \$139 million at September 30, 2011.

The spreadsheet used to calculate market value for D&D Fund investments contained mathematical errors and management review controls performed by Energy Finance and Accounting Service Center (EFASC) personnel did not detect the error.

The D&D Fund understated the disclosure for unrealized market gains (losses) by approximately \$140 million in note 4, Investments and Related Interest, Net, as of September 30, 2011. The D&D Fund subsequently recorded an adjusting entry to correct the market value in the financial statements.

**Recommendation:**

We recommend that the Department's Chief Financial Officer direct EFASC personnel to implement review procedures to ensure that the market value of investment is properly stated in the Departments financial statements.

**Management Reaction:**

The Investment team prepares market valuations for all four investment funds at fiscal year end. During preparation of market valuations for September 30, 2011, the Investment team inadvertently missed updating the "total" formula for the Notes section of the D&D Fund market value spreadsheet. The Notes section had previously been revised to reflect the purchase of two new securities in the last quarter of the fiscal year. This oversight was not identified by the Investment team prior to the entries being made in STARS. However, upon becoming aware of this issue, the Investment team immediately updated the "total" formula in the D&D Fund market value spreadsheet and made a correcting entry to STARS so that the FY 2011 D&D Fund market value would be accurately presented in the financial statements. Additionally, the Investment team placed the following reminder on the market value spreadsheets for all four investment funds: CHECK ALL TOTAL LINES for proper formula summations. This reminder should ensure the formulas are reviewed and updated before entries are made in STARS.

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4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report that would have been helpful?
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